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BY THE COMPTROLLER GENERAL RELEASED

Report To The Chairman, Committee On Government Operations, House Of Representatives

OF THE UNITED STATES

Consolidation Of United States Information Agency Activities In Washington, D.C.

The United States Information Agency will consolidate about 90 percent of its headquarters employees in three adjacent buildings at 4th and C Streets, SW. This consolidation should result in more efficient agency operations and space utilization and in savings.

Alterations costing $585,000 were recently completed at one of the buildings to be vacated under the consolidation. This investment will be lost.

The Administrator of General Services should monitor changes in the number of USIA employees and activities to be assigned to the new space at 400 C Street to ensure that utilization of the space is in accordance with criteria in Federal Property Management Regulations.

UNITED STATES GENERAL ACCOUNTING OFFICE

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-209532

The Honorable Jack Brooks
Chairman, Committee on
Government Operations
House of Representatives

Dear Mr. Chairman:

Your letter of May 26, 1982, asked us to review several aspects of the proposed partial consolidation of the United States Information Agency (USIA) (known as the International Communication Agency until August 1982) in a new building to be leased at 400 C Street, SW., Washington, D.C. You specifically asked us to (1) examine the timing of the proposal to consolidate USIA activities at this location, (2) examine the alterations made shortly before the lease expired at the 1776 Pennsylvania Avenue, NW., building and the plan for continued occupancy of that building, and (3) compare the estimated cost of relocating and consolidating activities at 400 C Street over the expected lease term with the estimated cost of remaining at the present facilities for a similar period.

USIA is currently housed in three Government-owned and seven leased buildings which contain about 658,000 square feet of space. In April 1982, the General Services Administration (GSA) submitted a prospectus to the House Committee on Public Works and Transportation requesting approval of a proposed lease for 355,000 occupiable square feet (later reduced to 330,000) to partially consolidate USIA activities. The Committee approved the prospectus on September 23, 1982, and GSA entered into a 10-year lease for the 400 C Street, SW., building on October 1, 1982. The move by USIA to this building is scheduled to be completed by April 1983.

Details on the issues in your May 26, 1982, letter and other matters are included in appendix I and are summarized below in the following sections.

TIMING AND BASIS FOR CONSOLIDATION

USIA has been seeking to relocate and consolidate its headquarters activities at 4th and C Streets, SW., since October 1981. USIA's Voice of America operations are already principally located there. The consolidation of over 90 percent of USIA headquarters employees in three adjacent buildings, two of which are Government owned, should result in more efficient agency operations and space utilization. Consolidating agencies and constituent parts thereof in common or adjacent space to improve management and administration is consistent with law, Federal Property Management Regulations, and executive orders. (See pp. 1 and 4.)

ALTERATIONS AT 1776 PENNSYLVANIA AVENUE, NW.

GSA contracted for major alterations for USIA's Communication Center at 1776 Pennsylvania Avenue about 14 months before the lease expired. The total cost of the alterations was $584,135, which was funded by USIA. At the time GSA contracted for the alterations, no move by USIA was contemplated. The residual investment in these alterations will be lost when USIA vacates the building. (See p. 4.)

STATUS OF LEASED BUILDING
AT 1776 PENNSYLVANIA AVENUE, NW.

The latest 10-year lease on the 1776 Pennsylvania Avenue building expired on May 31, 1982, and USIA has continued to occupy it on a holdover basis since then. As of December 1982, GSA planned to vacate and relinquish this building to the lessor. (See pp. 2 and 7.)

ESTIMATED SAVINGS THROUGH CONSOLIDATION

Using the GSA plan submitted to the Congress, we prepared an analysis as of September 1, 1982, of the cost of USIA moving to 400 C Street, SW., versus the cost of remaining at current locations. As arranged with you, we discussed the results of our review, including the analysis with the Subcommittee on Public Buildings and Grounds, House Committee on Public Works and Transportation, before that Subcommittee held hearings in September 1982 on the GSA prospectus for the 400 C Street, SW., building.

Our analysis of the plan included in the GSA prospectus shows that savings would be realized by relocating USIA to 400 C Street, SW. We estimate that the undiscounted savings over the 10-year lease period could be as much as $12.16 million. If cash outlays are discounted to recognize the time value of money, the estimated savings is $1.78 million. GSA's and USIA's analyses also show savings.

It is difficult in this case to make a precise estimate of savings because of the variables involved, the impact of any changes to the plan, and nonquantifiable benefits associated with the consolidation. The analysis is sensitive to assumptions made. Estimated savings can vary depending upon estimated future rental rates and cost of services, the discount rate used, and other assumptions made. For example, the Government's maximum liability of $7.65 million for rent on unexpired leases for space to be vacated by USIA could be reduced if GSA fills the space with other tenant agencies, cancels the leases at a reduced cost or at no cost, sublets the vacated space, or negotiates other arrangements. In its analysis, GSA assumed that it would fill the space with other tenants at a cost of about $3 million for alterations, but it did not have a firm plan for filling the space to be vacated by USIA. If we had used GSA's $3 million estimate in our analysis, estimated undiscounted savings would have increased by $4.63 million and discounted savings would have increased by $3.33 million.

After we prepared our analysis, certain events occurred during September 1982 which, on a combined basis, could decrease the estimated undiscounted savings by $4.19 million and the discounted savings by $1.46 million. These include a reduction in the USIA activities to be relocated to the 400 C Street building, a slippage of about 2 months in the estimated move date, and a decrease in the average yield on Treasury obligations from 13.82 percent to about 12.25 percent. We used the average yield on Treasury obligations as the basis for the discount rate used in our cost analysis. (See p. 7.)

RELOCATION OF COMMUNICATION AND COMPUTER CENTERS

Initially, USIA had planned to move the Communication Center's equipment at 1776 Pennsylvania Avenue, NW., as well as the Computer Center's equipment at 1750 Pennsylvania Avenue, NW., to a unified computer and communication center to be constructed on the mezzanine floor of 400 C Street, SW. USIA estimated that the alterations for this facility would cost about $1.8 million. In view of the sizable investment that would be required in this leased building, we suggested to USIA in July 1982 that a better solution would be to move these facilities to a Government-owned building adjacent to 400 C Street, SW. Subsequently, in September 1982 USIA decided to move these facilities to a Government-owned building. Also, the House Committee on Public Works and Transportation, in approving the lease prospectus for the consolidation on September 23, 1982, stipulated that the computer and communication center be located in a Government-owned building. (See pp. 6 and 9.)

DIFFERING UNDERSTANDINGS ABOUT ACTIVITIES TO BE RELOCATED TO 400 C STREET, SW.

GSA's and USIA's plans presented to the Congress differ on the USIA activities that will be relocated to 400 C Street. GSA's plan was based on relocating USIA activities from five buildings, including the Bernstein Building, whereas USIA's plan was based on moving activities from only four buildings to 400 C Street and moving activities from the Bernstein Building to one of the adjacent Government-owned buildings. As a result, GSA does not know if the space to be assigned to USIA at 400 C Street is in accordance with current usage standards.

We brought this matter to GSA's attention. After an exchange of letters between GSA and USIA, GSA approved USIA's plan on September 17, 1982. However, as of October 22, 1982, GSA had not reduced the space assigned to USIA at 400 C Street to reflect the change in the plan. The change in the plan could affect space utilization and reported savings. (See p. 10.) Since GSA, by law and implementing regulations, is responsible for the efficient acquisition and utilization of federally owned and leased space, we believe GSA should review the space currently assigned to USIA in light of changes in the consolidation plan and GSA's recent statements emphasizing more efficient space utilization.

400 C STREET BUILDING SELECTED WITHOUT COMPETITION

The USIA space requirement was not advertised. The 400 C Street, SW., building was selected for this requirement without competition. Had GSA advertised and obtained competitive offers, it might have obtained an offer at a lower rental rate. However, if, after advertising, the lowest offer was for a building at a different location, the benefits of consolidating USIA at the C Street location, where USIA's Voice of America is already principally located, would have been lost. We believe that GSA should have (1) prepared a written solicitation for offers for USIA's office space needs and (2) justified noncompetitive negotiations without advertising before entering into negotiations for the lease at 400 C Street. (See p. 11.)

RECOMMENDATION

In view of the changes in the number of employees and activities to be assigned to the new building at 400 C Street, we recommend that the Administrator of General Services survey space assigned to USIA headquarters to assure the efficient and effective use of space and make an adjustment, if warranted, to the space assigned.

AGENCY COMMENTS

As agreed, we provided GSA with a draft of appendixes I, II, and III and asked for its oral comments. We met with GSA Public Buildings Service representatives on October 22, 1982, and discussed their comments on the appendixes. They generally agreed with our findings. We did not provide USIA with a draft of the report for comment, but we did discuss the results of our review with USIA representatives.

Unless you publicly announce its contents earlier, no further distribution of this report will be made until 30 days from the date of the report.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

CONSOLIDATION OF UNITED STATES INFORMATION AGENCY AT 400 C STREET, SW.

USIA 1/ is housed in about 658,000 square feet of space in seven leased buildings and three Government-owned buildings in Washington, D.C. In April 1982 GSA proposed relocating about 1,718 of USIA's headquarters employees from five leased buildings to a new leased building at 400 C Street, SW. (See app. III.)

EVENTS LEADING UP TO PROPOSED MOVE

On October 7, 1981, the Director of USIA wrote to the White House Deputy Chief of Staff, requesting that USIA "take possession" of the Department of Health and Human Services (HHS) - North Building at 4th and C Streets, SW., as the sole occupant to enable USIA, with possibly one or two minor exceptions, to consolidate all Voice of America and other USIA activities in one building. On October 8, 1981, the White House Deputy Chief of Staff wrote to the Administrator of General Services, requesting "immediate attention to the President's request to assist Charles Wick [Director of ICA] in his desire to consolidate the ICA activities into one facility." The plan adopted by USIA and GSA envisaged exchanging existing USIA space for space in the HHS - North Building. However, the plan was abandoned because the tenant agencies, HHS and the Department of Education, were only willing to relinquish about 50,000 square feet.

At a March 19, 1982, meeting with the White House Space Allocation Committee, USIA presented a proposal to partially consolidate in a new building under construction at 400 C Street, SW. This building is adjacent to the HHS - North Building at 4th and C Streets, SW., and the Mary E. Switzer Memorial Building at 330 C Street, SW., both Government owned, where most of USIA's Voice of America operations are already located. The proposal was approved.

In accordance with section 7 of the Public Buildings Act of 1959, as amended (40 U.S.C. 606), GSA submitted a prospectus to the House Committee on Public Works and Transportation on April 5, 1982, requesting approval of a proposed lease for 355,000 occupiable square feet to partially consolidate USIA activities. This prospectus was amended on June 7, 1982, to reduce the occupiable

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1/Effective August 24, 1982, the name of the agency was changed from International Communication Agency (ICA) to United States Information Agency domestically and to United States Information Service abroad.

square footage from 355,000 to 330,000. The Committee approved this prospectus on September 23, 1982. (Under current procedures, lease prospectuses other than for lease construction will not be reviewed by the Senate Committee on Environment and Public Works.)

A 10-year lease for the C Street building 1/ was signed on October 1, 1982. The annual rental is $5,749,025 for 358,252 net usable square feet, or $16.05 a square foot. This rate includes services and maintenance but excludes utilities. The plan in the prospectus states that USIA activities would be moved from five leased buildings to one leased building and that over 90 percent of USIA headquarters employees would be consolidated in three adjacent buildings, two of which are Government owned, as follows:

Building	Employees
400 C Street	1,718
HHS - North	1,227
Mary E. Switzer	16
Total	2,961

1776 PENNSYLVANIA AVENUE, NW., BUILDING

This building is one of the leased buildings to be vacated by USIA under the proposed consolidation plan. USIA occupies about 146,000 square feet here. The lease on this building expired on May 31, 1982.

On May 22, 1981, GSA, as required by the 1959 act, submitted a prospectus to the Congress to continue to lease this building for 10 years, at an estimated cost of $18-$29 a square foot. No action was taken on this prospectus and the Government has been a holdover tenant since May 31, 1982.

At the end of December 1981, GSA contacted the lessor to start negotiations for a 10-year succeeding lease. During negotiations, the lessor offered an annual rent of $4.1 million and GSA counter-offered $3.33 million. In addition, GSA agreed to pay the lessor about $525,000 for installing a stairwell and other safety and fire prevention items and for improving the building's accessibility to the handicapped.

In April 1982, less than 2 months before lease expiration, GSA advised the lessor that the Government no longer wished to negotiate for a new 10-year lease. Instead, GSA proposed an 8-month lease extension for the entire building and a further 10-month extension for a small portion of the second floor of the building, which houses the USIA Communication Center. The purpose of the proposed

1/USIA is scheduled to complete its move to this building by April 1983.

extension was to allow USIA sufficient time to vacate the building and to construct special space for the Communication Center at the 400 C Street location if the prospectus for consolidation was approved.

On June 19, 1982, GSA submitted an amended prospectus for 1776 Pennsylvania Avenue which proposed a lease term of up to 5 years and gave the Government cancellation rights. The prospectus was still pending before the House Committee on Public Works and Transportation as of October 22, 1982.

According to GSA officials, this latter prospectus was intended as a backup in case the prospectus for the proposed partial consolidation was not approved. However, the lessor has indicated that he would only consider a 10-year succeeding lease. In any event, as of December 1982, GSA planned to vacate and relinquish the building to the lessor after consolidation of USIA at 400 C Street.

OBJECTIVE, SCOPE, AND METHODOLOGY

By letter dated May 26, 1982 (see app. IV), the Chairman, House Committee on Government Operations, asked us to review several aspects of the proposed partial consolidation of USIA in a new building to be leased at 400 C Street, SW., Washington, D.C.

Our objective was to (1) examine the timing of the proposal to consolidate USIA activities at 400 C Street, (2) examine the alterations made shortly before the lease expired at the 1776 Pennsylvania Avenue building and the plan for continued occupancy of that building, and (3) compare the estimated cost of relocating and consolidating USIA activities at 400 C Street over the expected lease term with the estimated cost of remaining at the present facilities for a similar period.

We made our review at GSA's National Capital Region, Washington, D.C. We reviewed lease files and related records, internal audit reports, GSA's Handbook entitled "Acquisition of Leasehold Interest in Real Property" (PBS P 1600.1), and laws and regulations pertaining to the acquisition and alteration of leased space. We also held discussions with GSA and USIA officials and with the lessor and his representatives.

We performed our work in accordance with generally accepted government audit standards. In our cost comparison and present-value analysis, we made certain estimates and assumptions concerning future events and costs which we believe to be reasonable. Results of such comparisons and present-value analyses may vary depending upon assumptions made and precision of estimates. Among the variables which may affect results are the discount rate, estimated costs, and projected inflation rates.

Our detailed comments on the issues raised in the May 26, 1982, letter and other matters follow.

ARE THE FACILITIES REQUIRED BECAUSE OF THE CONSOLIDATION?

As discussed on page 1, since October 1981 USIA has been seeking to relocate and consolidate its headquarters activities at 4th and C Streets where the largest element of USIA, the Voice of America, has its broadcasting and television studios already principally located in the HHS - North Building. USIA believes that it would be extremely costly to move the Voice of America operations. Therefore, the only cost-effective solution, according to USIA, requires a location that better consolidates USIA without requiring a Voice of America move. Consequently, USIA sought to obtain occupancy of the HHS - North Building for consolidation. However, this plan was abandoned because the tenant agencies were only willing to relinquish a limited amount of space in the building. In March 1982 USIA proposed to consolidate at 400 C Street upon learning that the building might be available for lease.

The 400 C Street building meets the USIA location requirement. Further, such a move will consolidate over 90 percent of USIA headquarters employees in three adjacent buildings, two of which are Government owned. The consolidation should also result in more efficient agency operations and space utilization. The total occupiable space at the five locations initially planned to be vacated is 384,468 square feet. (See app. III.) The total occupiable square footage of space at this building is 320,188 (a reduction of 64,280 square feet). 1/ GSA has determined that there is no other space available at the 4th and C Street location that could provide for USIA consolidation.

WHY WERE BUILDING MODIFICATIONS MADE AT THE 1776 PENNSYLVANIA AVENUE, NW., BUILDING BEFORE A NEW LEASE WAS NEGOTIATED?

On July 23, 1979, USIA sent a reimbursable work authorization to GSA for $250,000 to design and build by April 1, 1980, an addition to the communication facility at this building. The reimbursable work authorization was later amended to cover the estimated cost of the work. GSA awarded a contract for the design work to the lessor on April 8, 1980. The total cost under this contract, as amended, was $17,500. In April 1981, less than 14 months prior to lease expiration, GSA contracted with the lessor for the alterations. GSA paid the lessor $481,762 for the alterations. GSA said that at the time it contracted for the alterations at the

1/This reduction could decrease with changes in the consolidation plan.

Communication Center, no move was contemplated. The following table shows a breakdown of the total cost, which USIA funded:

Design	$ 17,500
Alterations	481,762
Total paid by GSA	499,262
GSA supervision	49,788
Support equipment procured and paid for directly by USIA	35,085
Total	$584,135

According to information furnished by USIA, the cost of the computer communications equipment installed at 1776 Pennsylvania Avenue was about $2.8 million. USIA plans to move the equipment to the new location.

GSA awarded the alteration contract before it had requested an offer for a succeeding lease from the lessor. This is contrary to GSA's prescribed procedures issued on April 25, 1980, which were subsequently incorporated in its revised handbook (PBS P 1600.1) issued on September 10, 1980, which states:

"Whenever the alterations are in excess of $50,000 and will exceed 10% of the existing net rent, and the remaining lease term is less than three years, offers for suitable succeeding or superseding leases or consideration for the early exercise of a renewal must be requested in writing from the lessor. Suitable offers are those which would include the cost of alterations amortized completely or partially over an appropriate succeeding lease term as well as offers for a succeeding lease with the Government paying the alterations by negotiated lump sum.

"The contracting officer shall then make a comparison of all available alternatives, taking into account the agencies' operating needs and all of the costs associated with each alternative. The file must reflect the rationale in support of the chosen alternative, and that rationale is to accompany any clearance submittal."

The net rent for the building at the time of the alteration contract award was $608,196.

Our 1978 reports (LCD-77-354 and LCD-78-338) stated that GSA performed major alterations in leased space shortly before lease expiration. We concluded that this practice was poor strategy because it weakens GSA's position in negotiating a succeeding lease. Accordingly, we recommended that GSA establish a procedure to ensure that consideration is given to renegotiating the rent and lease period before contracting for major alterations. GSA responded by revising its prescribed procedures as described above.

Although GSA did not request an offer for a suitable succeeding lease before it awarded the alteration contract, it did request and obtain a letter, dated April 6, 1981 (the date of alteration contract award), from the lessor's representative, stating that the lessor would "negotiate in good faith with the Government, to arrive at the fair market rental value of the captioned premises, for a new lease." We do not consider such a statement of intent to be an adequate substitute for a firm offer. When negotiations subsequently commenced for a succeeding lease, the lessor offered an annual rental of $4.1 million for a 10-year lease, excluding utilities. GSA counteroffered with a $3.33 million annual rental. However, as previously mentioned, negotiations were broken off in April 1982 when GSA decided it no longer wanted a 10-year lease.

GSA said that costs for the alterations would have increased at least 10 percent if the contract was not awarded by April 6, 1981. Furthermore, according to GSA, USIA had ordered new cryptographic equipment for its Communication Center and the National Security Agency required that certain standards of construction be met before the equipment could be installed and used. GSA said that USIA was incurring storage costs for this new equipment awaiting installation.

WILL SIMILAR MODIFICATIONS HAVE TO BE MADE AT THE NEW LOCATION IF USIA MOVES AND, IF SO, AT WHAT COST?

Similar alterations will be required at the new location. USIA had planned to move the Communication Center at 1776 Pennsylvania Avenue, NW., and the Computer Center at 1750 Pennsylvania Avenue, NW., to a unified computer and communication center to be constructed on the mezzanine floor of 400 C Street. USIA estimated that the cost to build this facility would be $1.8 million and that the cost to move the communication and computer equipment would be $33,000. However, in September 1982, USIA decided to move these facilities to a Government-owned building. (See p. 9.) A USIA official told us on October 27, 1982, that the alteration costs at the Government-owned building would be less than $1.8 million but no estimate had been made.

IF GSA RETAINS THE 1776 PENNSYLVANIA AVENUE PROPERTY, WILL THE GOVERNMENT PAY FOR TWO MOVES INSTEAD OF ONE?

As discussed on page 2, the latest lease on this building expired on May 31, 1982, and the Government has continued to occupy it as a holdover tenant since that date. As of December 1982, GSA planned to vacate and relinquish this building to the lessor after consolidation of USIA at 400 C Street.

ESTIMATE OF THE COST OF RELOCATION AND CONSOLIDATION

Using the GSA plan submitted to the Congress, we prepared an analysis as of September 1, 1982, of the cost of USIA moving to 400 C Street, SW., versus the cost of remaining at current locations. Our analysis of the plan included in the GSA prospectus sent to the Congress in April 1982 and later amended in June 1982 shows that savings would be realized by moving USIA activities to 400 C Street, SW. It should be noted that the negotiated rent of $16.05 a square foot (GSA's net usable measurement) for 400 C Street is lower than the asking price of $27.09 for 1776 Pennsylvania Avenue or the GSA offered price of $22.00 a square foot. It is also lower than what GSA would anticipate paying on other succeeding leases at the present locations. We estimate that the undiscounted savings over the 10-year lease period could be as much as $12.16 million. If cash outlays are discounted to recognize the time value of money, the estimated savings is $1.78 million. (See app. II.)

It is difficult in this case to make a precise estimate of savings because of the variables involved, the impact of changes to the plan, and nonquantifiable benefits associated with the consolidation. The analysis is sensitive to assumptions made. The estimated savings can vary depending upon estimated future rental rates and cost of services, the discount rate used, and other assumptions made. For example, the Government's maximum liability of $7.65 million for rent on unexpired leases for space to be vacated by USIA could be reduced if GSA fills the space with other tenant agencies, cancels the leases at a reduced cost or at no cost, sublets the vacated space, or negotiates other arrangements. In its analysis, GSA assumed that it would fill the space with other tenants at a cost of about $3 million for alterations, even though it did not have a firm plan for filling the space to be vacated by USIA. If we had used GSA's $3 million estimate in our analysis, estimated undiscounted savings would have increased by $4.63 and discounted savings would have increased by $3.33 million.

Also, as mentioned above, estimated future rental rates could have a sizable impact on estimated savings. For example, different estimates could be made as to the rent rate that would be negotiated in the event the Government were to lease the 1776 Pennsylvania Avenue building for another 10 years. As mentioned on page 2, the lessor offered an annual rent of $4.1 million and GSA counteroffered

$3.33 million. In our analysis, we used a rate of $3.7 million because the lessor told us that he would lower his offer to this amount. If the lease were renewed at a different rate, the estimated savings would vary accordingly.

After we prepared our analysis, certain events occurred during September 1982 which, on a combined basis, could decrease estimated undiscounted savings by $4.19 million and discounted savings by $1.46 million. These events include a reduction in the USIA activities be relocated to the 400 C Street building (see p. 10), a slippage of about 2 months in the scheduled move date, and a decrease in the average yield on Treasury obligations from 13.82 percent (see p. 18) to about 12.25 percent. We used the average yield on Treasury obligations as the basis for the discount rate used in our analysis.

GSA compared the 10-year undiscounted cost of USIA remaining at the five current locations with the 10-year cost of relocating at 400 C Street. In summary, GSA's analysis showed:

	Amount (millions)
10-year cost of remaining at five current locations	$83.8
10-year cost of relocating at 400 C Street, SW.	-64.2
Estimated savings	$19.6

USIA testified before the Subcommittee on International Operations, House Committee on Foreign Affairs, on June 3, 1982, that there would be a savings of $9 million (undiscounted) over the 10-year period, as follows:

	Amount (millions)
Cost to house USIA at current locations	$81
Cost at new site including one-time cost of move	-72
Savings	$ 9

In preparing its estimate, USIA made certain assumptions and revised GSA's cost figures accordingly. For example, it assumed that employees in four buildings would move to the 400 C Street building, whereas GSA assumed that employees in five buildings would move there. (For further discussion see p. 10.)

RELOCATION OF COMMUNICATION AND COMPUTER FACILITIES

USIA had planned to relocate its communication and computer facilities from 1776 and 1750 Pennsylvania Avenue, NW., to a unified computer and communication center at 400 C Street, SW., a leased building. GSA's unofficial policy is to place such facilities in a Government-owned building whenever possible.

USIA, in its April 1982 justification to GSA, stated that it was essential that its communication and computer facilities be collocated at the 400 C Street location. In May 1982 GSA expressed concern about moving these facilities to a leased building and asked USIA for additional justification. USIA provided additional justification in August 1982. Although at that time GSA had not reached a final decision on the relocation of these facilities, its preliminary space layout plans provided for relocation of the facilities to the mezzanine floor at the 400 C Street building.

In a July 21, 1982, meeting with USIA officials, we expressed the opinion that a better solution would be to relocate the Computer Center and Communication Center to a Government-owned building, such as the HHS - North Building, because of the sizable investment in alterations. USIA officials agreed in principle but stated that security and operational requirements necessitated locating the facilities at 400 C Street, SW. Also, they stated that they could not address the issue until GSA made a firm proposal for Government-owned space.

Subsequently, upon learning that existing computer space might become available in the HHS - North Building, USIA officials inspected the space on September 17, 1982, found it suitable for its needs, and entered into discussions with HHS officials to obtain the space. USIA officials told us that they were awaiting final approval from HHS. A decision not to move the facilities to the 400 C Street building would affect space utilization and estimated savings. The House Committee on Public Works and Transportation, in approving the lease prospectus for the consolidation on September 23, 1982, stipulated that the computer and communication center be located in a Government-owned building.

We discussed the advisability of placing computer facilities in Government-owned buildings and related legal aspects in previous reports. Our September 1978 report (LCD-78-338) pointed out that GSA had spent considerable amounts of money for alterations of leased space for computer facilities. Alterations in leased space require closer scrutiny than those in Government-owned buildings. When alterations are permanently affixed to a building, they cannot be removed when the lease expires. In effect, privately owned buildings are improved at Government expense. In those cases where alterations can be removed, the cost to do so might exceed the residual value. Also, as stated previously, the timing of alterations in leased buildings is important.

The 1959 act requires congressional approval for alterations in a Government-owned building which involve a total expenditure in excess of $500,000. There is no legal requirement for congressional approval of, or reporting on, alteration projects in leased buildings. Consequently, no further congressional authorization would be required for the alterations to accommodate the communication and computer facilities currently estimated to cost $1.8 million at 400 C Street. However, if the facilities were moved to a Government-owned building, congressional approval would be required for alterations over $500,000.

In 1978 we recommended that the Congress amend the law to require congressional authorization of alterations to leased space if the expenditure is over $500,000. This change would make alterations in leased space subject to the same approval requirements as alterations in Government-owned buildings. Pending legislation would restrict alterations in leased buildings or provide the Congress with better oversight over lease alterations. House bill 1938 states that GSA may not lease space for a major computer operation unless it is justified and reported to the House Committee on Public Works and Transportation and the Senate Committee on Environment and Public Works. Senate bill 533 also restricts placing computer operations in leased buildings.

DIFFERING UNDERSTANDINGS ABOUT ACTIVITIES TO BE RELOCATED TO 400 C Street, SW.

USIA and GSA had different understandings about USIA activities to be relocated to 400 C Street. GSA's analyses were based on relocating activities from five buildings, including the Bernstein Building at 25 M Street SW., whereas USIA's plan was based on relocating activities from four buildings. According to USIA, its activities in the Bernstein Building are not part of the consolidation at 400 C Street and will be moved to one of the Government-owned buildings at the C Street location. This could affect space utilization as well as estimated savings.

We brought this matter to GSA's attention on August 2, 1982. Subsequently, GSA sent a letter to USIA on August 10, 1982, stating in part that:

> "We have also learned that ICA is currently planning a relocation of the personnel at the Bernstein Building,

25 M Street, S.W. Washington, D.C., to the HEW-North complex. This is of great concern to us, since all our analyses for the prospectus (covering the proposed consolidation of ICA) was based on the consolidation of ICA from five locations (including the Bernstein Building)."

GSA approved USIA's plan on September 17, 1982, to move the Bernstein Building activities to one of the Government-owned buildings at 4th and C Streets. As of October 22, 1982, GSA had not decided to reduce the space assigned to USIA at 400 C Street to compensate for the change. GSA officials told us on October 22, 1982, that they would take another look at this matter.

400 C STREET, SW. BUILDING SELECTED WITHOUT COMPETITION

GSA did not advertise the USIA space requirement. The 400 C Street building was selected for this requirement without competition. This building was one of those offered during a solicitation for offers issued in November 1981 to obtain space for the Federal Communications Commission. The lowest rent offer on that solicitation was for a building in Alexandria, Virginia, and the next to the lowest offer was for 400 C Street, SW. Because of the location, the Commission did not move to the Alexandria building.

GSA did not advertise the USIA requirement or prepare a new solicitation because it considered the offered rental rate for this building reasonable, even though there were differences in requirements. The offered rent was below GSA's appraised fair annual rent.

If GSA had advertised the USIA space requirement and obtained competitive offers, it might have obtained a lower rental rate. However, if after advertising, the lowest offer obtained was for a building at a different location, the benefits of consolidating USIA at the C Street location would have been lost.

Section 302(c) of the Federal Property and Administrative Services Act of 1949, as amended (41 U.S.C. 252), states that all purchases and contracts for property and services shall be made by advertising, except under certain conditions. One of these, which GSA cites as a basis for negotiating leases, is that it is "impracticable to secure competition."

Even though GSA leases are usually negotiated rather than formally advertised under a sealed bid procedure, GSA's leasing procedures stress advertising when soliciting offers for leasing space. According to the procedures, the contracting officer is obligated to seek maximum competition in all lease acquisitions. However, the procedures permit awarding a lease without competition provided the contracting officer obtains the written approval of a GSA supervisory official before entering into negotiations for a noncompetitive lease. In this case, the required approval for entering into sole-source negotiations was not prepared until after the rent rate had been negotiated.

We believe that for the USIA space requirement, which differed from the earlier commission requirement, GSA should have (1) prepared a separate written solicitation for offers and (2) justified noncompetitive negotiations without advertising before entering into negotiations for the lease at 400 C Street.

Although GSA did not issue its written sole-source determination until after the rent rate was negotiated, GSA concluded that the building at 400 C Street was the only building which would meet USIA's needs, that is, to obtain the benefits of consolidating at the C Street location where the largest element of USIA was already mainly located. The situation described in the sole-source determination reflected the situation before the sole-source negotiations began, and this determination could and should have been made before entering into sole-source negotiations. However, ordinarily the failure to make a sole-source determination before negotiating would not affect the validity of an award where the sole-source basis exists.

ESTIMATED 10-YEAR COST OF REMAINING AT CURRENT LOCATIONS VERSUS MOVING TO 400 C STREET, SW. AS OF SEPT. 1, 1982 (note a)

	Outlays undiscounted	Outlays discounted
Estimated cost of remaining at current locations:		
Matomic Building	$10,897,100	$ 5,589,705
1750 Pennsylvania Avenue, NW.	27,811,531	13,796,269
1776 Pennsylvania Avenue, NW.	39,847,930	21,115,336
One McPherson Square	4,980,311	2,424,471
Bernstein Building	5,136,385	2,560,859
Total	88,673,257	45,486,640
Estimated cost of moving and cost at 400 C Street, SW.:		
Rent for 10 years	57,490,250	30,196,350
Utilities paid separately	5,708,382	2,998,288
Estimated alteration, moving furnishing, and other costs	5,260,690	4,187,028
Maximum liability for rent on unexpired leases	7,655,894	5,991,373
Cost of computer space to be retained after move	401,882	335,651
Total	76,517,098	43,708,690
Estimated savings assuming USIA is relocated to new site	$12,156,159	$ 1,777,950

Undiscounted Costs of Remaining at

Current Locations

Location	Amount
Matomic Building:	
Current lease - 01/01/83 - 08/01/85	a/$2,442,995
Succeeding lease - 08/02/85 - 12/31/92	b/8,454,105
Total	10,897,100
1750 Pennsylvania Avenue:	
Current lease - 01/01/83 - 01/31/85	a/3,613,526
Succeeding lease - 02/01/85 - 12/31/92	b/24,198,005
Total	27,811,531
1776 Pennsylvania Avenue:	
10-year lease	c/37,000,000
Utilities to be paid separately by the Government	2,322,930
GSA estimate of alteration costs	525,000
Total	39,847,930
One McPherson Square:	
Current lease - 01/01/83 - 08/21/87	a/1,833,359
Lease renewal option - 08/22/87 - 08/21/92	d/2,612,748
Succeeding lease - 08/22/92 - 12/31/92	b/534,204
Total	4,980,311
Bernstein Building:	
Current lease - 01/01/83 - 04/30/84	a/319,149
Succeeding lease - 05/01/84 - 12/31/92	b/4,817,236
Total	5,136,385
Total	$88,673,257

Undiscounted Costs of Moving to 400 C Street, SW.

		Amount
400 C Street:		
Rent		$57,490,250
Utilities to be paid separately by the Government		5,708,382
USIA estimate of alterations, moving, furnishing, and other costs	$5,247,640	
Moving from Bernstein Building (not included in USIA's estimate)	13,050	
		5,260,690
Maximum liability for rent on unexpired leases (note f):		
Matomic Building	2,442,995	
1750 Penn. Ave.	3,379,540	
One McPherson Square	1,833,359	
		7,655,894
Computer space to be retained by USIA		401,882
Total		$76,517,098

Discounted Costs of Remaining at Current Locations

Location	Amount (note e)
Matomic Building:	
Current lease - 01/01/83 - 08/01/85	a/$ 1,934,832
Succeeding lease - 08/02/85 - 12/31/92	b/3,654,873
Total	5,589,705
1750 Pennsylvania Avenue:	
Current lease - 01/01/83 - 01/31/85	a/2,960,282
Succeeding lease - 02/01/85 - 12/31/92	b/10,835,987
Total	13,796,269
1776 Pennsylvania Avenue:	
10-year lease	c/19,433,990
Utilities to be paid separately by the Government	1,220,102
GSA estimate of alteration costs	461,244
Total	21,115,336
One McPherson Square:	
Current lease - 01/01/83 - 08/21/87	a/1,287,946
Lease renewal option - 08/22/87 - 08/21/92	d/990,165
Succeeding lease - 08/22/92 - 12/31/92	b/146,360
Total	2,424,471
Bernstein Building:	
Current lease - 01/01/83 - 04/30/84	a/271,967
Succeeding lease - 05/01/84 - 12/31/92	b/2,288,892
Total	2,560,859
Total	$45,486,640

Discounted Costs of Moving to 400 C Street, SW.

		Amount (note e)
400 C Street:		
Rent		$30,196,350
Utilities to be paid separately by the Government		2,998,288
USIA estimate of alterations, moving, furnishing, and other costs	$4,175,563	
Moving from Bernstein Building (not included in USIA's estimate)	11,465	
		4,187,028
Maximum liability for rent on unexpired leases (note f):		
Matomic Building	$1,934,832	
1750 Penn. Ave.	2,768,595	
One McPherson Square	1,287,946	
		5,991,373
Computer space to be retained by USIA		335,651
Total		$43,708,690

a/Using the GSA plan submitted to the Congress (see app. III), we prepared our analysis as of September 1, 1982. At that time, according to GSA, a January 1, 1983, move date was feasible. Accordingly, we used an analysis period of January 1, 1983, to December 31, 1992. Also, current lease rates are on a fully serviced basis.

b/Estimated rent for renewal period was based on GSA's appraised rent for 1982 for fully serviced occupiable space which was then adjusted for a projected increase in the consumer price index to lease renewal date.

c/By letter dated April 22, 1982, the lessor offered to renew the lease for 10 years at an annual rent of $4.1 million plus escalation. On July 21, 1982, one of the building owners told us that GSA offered a price of $3.33 million a year and the owners would be willing to lower the rent to $3.7 million. In our analysis, we used $3.7 million.

d/Lease contains a 5-year renewal option. We used the rate stipulated for the option period, adjusted to fully serviced basis.

e/In our analysis, we used a discount rate of 13.82 percent which was based on the average yield on outstanding Treasury obligations with maturities exceeding 10 years as of June 1982.

f/The maximum liability for rent on unexpired leases was computed from January 1, 1983, until lease expiration date. This maximum liability could be reduced if GSA fills the vacated space with other tenant agencies, sublets the vacated space, cancels leases at a reduced cost or at no cost, or negotiates other arrangements. No liability was shown for the 1776 Pennsylvania Avenue building since the lease expired May 31, 1982, or for the Bernstein Building since the Government has an option to cancel the lease.

USIA SPACE TO BE VACATED AND RETAINED

ASSUMING PARTIAL CONSOLIDATION AT

400 C STREET, SW. (note a)

Address	Occupiable sq. ft.	No. of people	Lease expiration
Leased space to be vacated:			
Matomic Building 1717 H Street, NW.	48,585	270	08/01/85
1750 Penn. Ave., NW.	115,825	474	01/31/85
1776 Penn. Ave., NW.	145,980	748	05/31/82
Bernstein Building 25 M St., SW.	29,333	87	04/30/84
One McPherson Square 1425 K St., NW.	44,745	139	08/21/87
Space to be vacated in 5 buildings	384,468	1,718	
Leased space to be retained:			
Patrick Henry Building 601 D St., NW.	77,245	210	10/20/93
National Press Building 14th & F Sts., NW.	4,115	12	08/31/82
Subtotal	81,360	222	
Government-owned space to be retained:			
HHS - North Building 4th & C Sts., SW.	169,285	1,227	N/A
Auditors Building 14th & C Sts., SW.	7,628	16	N/A
Mary E. Switzer Memorial Building 330 C St., SW.	15,230	16	N/A
Subtotal	192,143	1,259	
Space to be retained in five buildings	273,503	1,481	
Total agency space in 10 buildings	657,971	3,199	

a/Similar information was included in the GSA prospectus and the amendment sent to the Congress in April and June 1982.

NINETY-SEVENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT OPERATIONS

2157 Rayburn House Office Building

Washington, D.C. 20515

May 26, 1982

The Honorable Charles A. Bowsher
Comptroller General of the United States
Washington, D. C. 20548

Dear General:

It is my understanding that the International Communications Agency is proposing to consolidate several of its functions and in the process it proposes to relocate those functions in new facilities to be acquired by government lease.

The primary function of the ICA affected by the consolidation is located at 1776 Pennsylvania Avenue, N. W., and in an adjoining facility at 1750 Pennsylvania Avenue, N. W. The new facility which ICA proposes to occupy is a building being constructed at 4th and C Streets, S. W., in the District of Columbia. Several aspects of the consolidation and move raise questions on which I would appreciate the comments and advice of the General Accounting Office:

1. The timing of the proposal is curious. The lease on the 1776 Pennsylvania property apparently expires on May 31, 1982. Negotiations for renewal of the lease have been under way for some time, but the first mention of which I am aware proposing a consolidation was on April 5, 1982, less than two months before the expiration of the current lease. This raises some question as to whether the desire to consolidate is motivated by the desire to acquire new facilities or, in fact, the new facilities are required because of the consolidation. I am aware that the ICA presently occupies 10 different sites in the City and that the consolidation would unite 5 of those activities, still leaving ICA functioning in 6 separate locations.

2. It is my understanding that building modifications costing approximately $500,000 have recently been completed at the 1776 Pennsylvania Avenue property in order to accommodate a new $6.5 million computer installation for ICA. Why was this expenditure undertaken in the final months of the lease and prior to renegotiating a new lease agreement? Who funded this expenditure? Will similar modifications have to be made at a new location if ICA moves and, if so, at what cost?

The Honorable Charles A. Bowsher
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3. Apparently, GSA has recommended that the 1776 Pennsylvania Avenue property be retained as a leased property for further government use. If that is the case, does this mean that the government will be, in effect, paying for two moves instead of one?

4. What is your best estimate of the cost of the consolidation and relocation of ICA to the quarters in Southwest Washington over the expected term of the lease as compared to the cost of remaining in the current facilities for a similar period of time?

Inasmuch as the lease on the Pennsylvania Avenue property is expected to expire very shortly and a decision must be made on the Southwest Washington property in the next few weeks, an expeditious review of these issues would be appreciated.

With best wishes, I am

Sincerely,

Jack Brooks

JACK BROOKS
Chairman

(945511)

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